

Message Text

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ACTION EA-06

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FM AMEMBASSY JAKARTA

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AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

USINT BAGHDAD

AMEMBASSY LONDON

AMEMBASSY PARIS

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 9064

LIMDIS

HONG KONG PASS TREASURY REP

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: GOI-OIL COMPANY DISCUSSIONS

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REF: A) JAKARTA 8849 (NOTAL), B) JAKARTA 8324 (NOTAL)

1. SUMMARY: DISCUSSIONS LAST WEEK BETWEEN GOI AND PRODUCTION-SHARING OIL COMPANIES HAVE MOVED BOTH SIDES CLOSER TO AGREEMENT. COMPANIES ARE SUBMITTING FINAL OFFERS JULY 12 AND GOI FINAL DECISION IS ANTICIPATED NO LATER THAN JULY 15. GOI HAS REVISED ITS POSITION AND COMPANIES ARE BETTING THAT "WATERDOWNED" GUIDELINES WILL EMERGE. FINAL PACKAGE MAY CONTAIN SHORTER DEPRECIATION SCHEDULE, 80-20 PROFIT SPLIT, AND CUT ON COMPANIES' "COST OIL" OF ABOUT \$1.00/BARREL. END SUMMARY.

2. THERE APPEAR TO BE FIRST SIGNS OF POSSIBLE SETTLEMENT OF DIFFERENCES AS RESULT LAST WEEK'S ROUNDS OF TALKS BETWEEN GOI AND PRODUCTION-SHARING COMPANIES. MEETINGS BEGAN ON JULY 6 WITH JAPEX FIRST COMPANY TO MAKE PRESENTATION. SUCCEEDING MEETINGS WERE WITH IAPCO, UNION, PETROMER TREND, AND ARCO. PERTAMINA PRESIDENT HARYONO, ASSISTED BY OIL AND GAS DIRECTOR WIJARSO AND PERTAMINA BOARD OF COMMISSIONER SECRETARY GOZALI, HAS REPRESENTED GOI. PRICE-WATERHOUSE TEAM OF ADVISORS, BEEFED UP BY PERSONNEL FROM US, HAS BEEN USED BY GOI IN FINANCIAL ASPECTS OF CONSULTATIONS WITH THE COMPANIES.

3. WIJARSO TOLD EMBOFF JULY 9 THAT COMPANY PRESENTATIONS COULD BE CHARACTERIZED AS "BUSINESSLIKE" OR "EMOTIONAL." JAPEX BEGAN TALKS BY TABLING COUNTER OFFER OF \$1.00/BARREL WHICH WOULD BE APPLIED OVER THREE-YEAR PERIOD ON "COST OIL." JAPEX ALSO PRESSED FOR CONSOLIDATION OF OPERATING AREAS INTO ONE COST ACCOUNTING STATEMENT. GOI SHREWDLY CALCULATED THAT JAPEX, WHICH HAS SEVERAL HIGH RANKING OFFICERS IN TOWN, WOULD MAKE SOME FORM OF PROPOSAL AT LEAST FOR FACE-SAVING SAKE. HENCE, BY LEADING OFF WITH JAPEX, PRESSURE WOULD BE PUT ON US COMPANIES WHOSE PRESENTATIONS WERE TO FOLLOW. UNION AND QRCO RELUCTANTLY ALSO MADE OFFERS AT INITIAL MEETINGS. THOSE COMPANIES THAT DID NOT MAKE OFFERS WERE GIVEN UNTIL SATURDAY TO DO SO. ALTHOUGH THERE HAVE BEEN SEVERAL CHANGES, COMPANIES BASICALLY ARE CONFIDENTIAL

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OFFERING A) "SHIFTS" ON PER BARREL PROFITS IN RETURN FOR MORE FAVORABLE TREATMENT ON COST WRITE OFFS, PARTICULARLY IN GREATER USE OF ACCELERATED OR SHORTER SCHEDULES, AND/OR B) DEFERRALS ON "COST OIL" IN AMOUNTS RANGING FROM \$1.00 TO \$1.50/BARREL.

4. WIJARSO INDICATED THAT ON THE BASIS OF COMPANIES' REPLIES THERE WAS "STILL ROOM" FOR NARROWING DOWN

DIFFERENCES. HE SAID HARYONO AND HE HAD SIMPLY PUT IT TO COMPANIES, "WHAT DO YOU WANT AND HOW DO YOU WANT TO DO IT." WIJARSO SAID THAT THEY HAD RE-EXAMINED PRICE-WATERHOUSE CALCULATIONS AND "SUDDENLY REALIZED" THAT GOI GUIDELINES, IF APPLIED AS CALCULATED, WOULD GIVE INDONESIANS "MORE THAN WE ASKED FOR" IN TERMS OF ADDITIONAL REVENUS. WIJARSO STATED THAT CALCULATIONS INDICATED THAT THESE REVENUES EVEN EXCEEDED INITIAL GOI REQUEST FOR \$2.50/BARREL. WIJARSO'S IMPLICATION WAS THAT PRICE-WATERHOUSE AND GOI TECHNICIANS WOULD EXAMINE OTHER DEPRECIATION OPTIONS. (COMMENT: CONTACTS WITH PW ADVISORS CONFIRM THIS. END COMMENT.)

5. CONVERSATIONS WITH COMPANIES THIS MORNING (JULY 12) INDICATE ALL WILL HAVE SUBMITTED FINAL OFFER BY NOON. CONSENSUS IS THAT GOI WILL MAKE DECISION NO LATER THAN JULY 15. (COMMENT: ENGLISH DAILY INDONESIAN TIMES REPORTED JULY 10 THAT "NEGOTIATIONS WITH OIL CONTRACTORS TO BE SETTLED BEFORE AUGUST 17." HOWEVER, IN CONVERSATION BEFORE DEPARTURE TO US, WIJARSO TOLD EMBOFF JULY 15 REMAINED AS DEADLINE. THERE IS SPECIAL MEETING OF PERTAMINA BOARD OF COMMISSIONERS SET FOR TODAY (JULY 12), POSSIBLY FOLLOWED BY BRIEFING FOR PRESIDENT SUHARTO. END COMMENT.)

6. COMPANIES ARE BETTING THAT GOI WILL ISSUE SOME FORM OF REVISED, "WATERED DOWN" GUIDELINES POSSIBLY WITH 5-YEAR DEPRECIATION SCHEDULE REPLACING ORIGINAL PROPOSAL. PROFIT SPLIT COULD BE REVISED TO 80-20 SPLIT (THIS IS MAXIMUM ANY COMPANY HAS ACCEPTED) AND COMPANIES' "COST OIL" ALLOWANCE MAY BE CUT BACK BY \$1.00-\$1.50 PER BARREL. THIS SCENARIO BASED ON OUT-CONFIDENTIAL

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COME OF COMPANIES' MEETINGS SATURDAY, JULY 10. FIRST REACTION BY COMPANIES IS THAT ANTICIPATED NEW GUIDELINES WILL OFFER "SOME HOPE"; SPENDING PROGRAMS, HOWEVER, WOULD HAVE TO BE TAILORED TO LIVE WITH NEW GUIDELINES.

7. CURIOUSLY, TOTAL HAS NOT BEEN INVOLVED IN ANY SUBSEQUENT NEGOTIATING WITH GOI. COMPANY IS BOTH MYSTIFIED AND MIFFED BY THIS AS ANY CHANGES WILL CERTAINLY BE APPLIED TO THEM. GOI HAS APPARENTLY SELECTED JAPEX, WHICH OPERATES JOINTLY WITH TOTAL IN EAST KALIMANTAN BLOCK, TO REPRESENT TOTAL. PERTAMINA CHIEF HARYONO TOLD JAPEX OFFICIALS IN OPENING SESSION JULY 6 THAT HE CONSIDERED THEIR OFFER TO INCLUDE TOTAL AS WELL. JAPEX DENIED THIS AND MATTER, AS FAR AS WE

KNOW, WAS LEFT HANGING.
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